



**U. S. Department of Housing and Urban Development**  
*Office of Inspector General*  
26 Federal Plaza, Room 3430  
New York, NY 10278 0068

August 12, 2002

Joseph Della Fave, Executive Director  
Ironbound Community Corporation  
51 McWhorter Street  
Newark, New Jersey

Dear Mr. Della Fave:

Enclosed is our draft audit memorandum report, which was developed during our review of the Ironbound Community Corporation's Outreach and Technical Assistance Grants administered by your office. As per our telephone conversation, the scheduled exit conference is Wednesday, September 4, 2002 at your office at 10:00 A.M. If you desire that written comments be included in our final audit report, we ask that you provide them to us at the exit conference.

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If you have any comments and/or questions, please call Edgar Moore, Assistant Regional Inspector General for Audit or myself at (212) 264-8000 extension 3976.

Sincerely,

*Alexander C. Malloy*

Alexander C. Malloy  
Regional Inspector General for Audit

Enclosures

OFFICE OF INSPECTOR GENERAL

DRAFT AUDIT MEMORANDUM REPORT ON:

**IRONBOUND COMMUNITY CORPORATION**  
Newark, New Jersey

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Issue Date: August XX, 2002
Audit Case Number: 2002-NY-

MEMORANDUM FOR: Charles H. Williams, Director, HUD's Office of Multifamily  
Housing Assistance Restructuring, HY

FROM: Alexander C. Malloy, Regional Inspector General for Audit, ZAGA

SUBJECT: Ironbound Community Corporation  
Outreach and Technical Assistance<sup>1</sup>, and Public Entity Grants  
Newark, New Jersey.

## INTRODUCTION

We completed an audit of the Ironbound Community Corporation's (herein referred to as Grantee) Outreach and Technical Assistance Grants (OTAG) and Public Entity Grant (PEG). We performed the review at the direction of Congress.<sup>2</sup> The primary objective of our review was to determine whether the Grantee expended grant funds for only eligible activities as identified in the OTAG/PEG agreements and in accordance with U.S. Department of Housing and Urban Development (HUD) and other Federal requirements to further the Mark-to-Market Program. Also, the review was conducted to determine whether the Grantee used grant funds to pay expenses associated with lobbying activities. Federal regulations specifically prohibit the use of grant funds for lobbying activities.

To accomplish our objectives, we interviewed members of the Grantee's staff who are responsible for the administration of OTAG/PEG funded activities. We also reviewed the Grantee's accounting records, and other documents supporting the expenditures of the OTAG and PEG funds. This included review of the Grantee's monthly board meeting minutes, telephone records and employee timesheets for events that would indicate lobbying activities. Additionally, we reviewed the requirements in the Multifamily

<sup>1</sup> OTAG Nos. FFOT98019NJ and FFOT00027NJ

<sup>2</sup> The 2002 Defense Appropriation Act (Public Law 107-17) Section 1303 requires the U.S. Department of HUD, Office of Inspector General to audit all activities funded by Section 514 of the Multifamily Assisted Housing Reform and Affordability Act of 1997 (MAHRA).

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Assisted Housing Reform and Affordability Act of 1997 (MAHRA), the Notice of Fund Availability, the OTAG/PEG agreements, and the Office of Management and Budget's (OMB) guidance on allowable cost for nonprofit grantees. We tested six of the Grantee's 11 OTAG vouchers that were paid by HUD. Those vouchers contain costs of \$93,027.27, and represents 58.26 percent of the Grantee's total OTAG expenditures of \$159,673.26, that were incurred during the period we reviewed. There were no PEG expenditures to review since the Grantee neither incurred any costs nor requisitioned any PEG funds during the period reviewed.

The audit covered the period between January 1998, and April 2002. The audit fieldwork was performed during the months of June and July 2002. We conducted the audit in accordance with Generally Accepted Government Auditing Standards.

We appreciate the courtesies and assistance extended by the personnel of the Ironbound Community Corporation during our review.

In accordance with HUD Handbook 2000.06 REV-3, within 60 days please provide us, for each recommendation without management decisions, a status report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Additional status reports are required at 90 days and 120 days after report issuance for any recommendation without a management decision. Also, please furnish us copies of any correspondence or directives issued because of the audit.

Should you or you staff have any questions please contact Edgar Moore, Assistant Regional Inspector General for Audit or me at (212) 264-8000, ext. 3976.

## SUMMARY

Our review revealed that the Grantee did not always comply with HUD and/or Federal requirements pertaining to support for costs charged to the grant and allocated among prescribed activities. More specifically, the review revealed that the Grantee was unable to: a) provide adequate documentation to support rental expenses of \$18,600 that were charged to the OTAG; and b) support the pre-determined percentages used to allocate total costs incurred of \$159,673.26 among the four HUD prescribed activities of the OTAG. In this regard, the Grantee did not comply with provisions of OMB Circular A-122, which provide that cost must be adequately documented and commensurate with the benefits derived when allocated to benefiting functions. Consequently, the Grantee paid rental expenses with HUD funds that are unsupported, and reported costs to HUD by activity that may not be accurate. This occurred because Grantee officials believe that a rental agreement is not necessary, and because they are apparently unfamiliar with Federal requirements pertaining to selecting a supportable base to allocate costs among activities benefited. Thus, we recommend that HUD require the Grantee to obtain and maintain a rental agreement/lease to support the rental expenses charged to the grant, and to develop and maintain documentation to support the percentages used to allocate cost among the four HUD prescribed activities.

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## BACKGROUND

The 2002 Defense Appropriation Act (Public Law 107-17) Section 1303 requires the U.S. Department of Housing and Urban Development, Office of Inspector General to audit all activities funded by Section 514 of the Multifamily Assisted Housing Reform and Affordability Act of 1997. The directive would include the Outreach and Technical Assistance Grants (OTAG) and Intermediary Technical Assistance Grants (ITAG) administered by the Office of Multifamily Housing Assistance Restructuring.

The Multifamily Assisted Housing Reform and Affordability Act of 1997 (MAHRA) established the Office of Multifamily Housing Assistance Restructuring (OMHAR) within HUD. Utilizing the authority and guidelines under the MAHRA, OMHAR's responsibility included the administration of the Mark-to-Market Program, which included the awarding and oversight of the Section 514 Outreach and Technical Assistance and Intermediary Technical Assistance Grants. The objective of the Mark-to-Market Program was to reduce rents to market levels and restructure existing debt to levels supportable by these reduced rents for thousands of privately owned multifamily properties with federally insured mortgages and rent subsidies. Congress recognized, in Section 514 of the MAHRA, that the Mark-to-Market Program would affect tenants of the project, residents of the neighborhood, the local government, and other parties. Accordingly, Section 514 of the MAHRA authorized the Secretary to provide up to \$10 million annually (\$40 million total) for resident participation, for the period 1998 through 2001.

HUD issued NOFAs in Fiscal Years 1998 and 2000, to provide opportunities for nonprofit organizations to participate in the Section 514 programs. Through NOFAs, HUD provided two types of grants, the Intermediary Technical Assistance Grant (ITAG) and the Outreach and Technical Assistance Grants (OTAG). The ITAG program provides technical assistance grants through intermediaries to sub-recipients to include tenant affiliated community-based nonprofit organizations in properties that are eligible under the Mark-to-Market Program to help tenants participate meaningfully in the Mark-to-Market process. These ITAG grantees use Section 514 funds to provide Public Entity Grants (PEG) to sub-recipients, including OTAG grantees, and other public entities. The OTAG program provides technical assistance to tenants of eligible Mark-to-Market properties so that the tenants can participate meaningfully in the Mark-to-Market Program, and affect decisions about the future of their housing.

### Ironbound Community Corporation

The Ironbound Community Corporation (Grantee) is a resident controlled coalition of tenant groups from 25 privately owned government assisted complexes, representing approximately 25,000 residents, and is one of the oldest resident coalitions in the country.

The Grantee received two OTAGs, as follows:

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Fiscal

<u>Year</u>	<u>Grant No.</u>	<u>Amount</u>
1998	FFOT98019NJ	\$210,000
2000	FFOT00027NJ	\$400,000

The Grantee expended \$159,673.26 of the \$210,000 FY 1998 grant during the period between January 1998, and April 2002; and is currently carrying out grant activities related to Mark-to-Market eligible properties throughout the state of New Jersey.

During the review period, the Grantee did not receive any on-site monitoring from HUD's Office of Multifamily Housing Assistance Restructuring. Nevertheless, the Grantee identified 22 and assisted 8 projects that qualified for assistance under this OTAG, during our audit period. Regarding the FY 2000 OTAG in the amount of \$400,000, the Grantee had not incurred any costs; therefore, no funds were requisitioned during the period we reviewed.

Additionally, we noted that the Grantee has been approved to receive a Public Entity Grant (PEG) in the amount of \$20,000, from the Intermediary Technical Assistance Grantee (ITAG) "Georgetown University" doing business as the "National Center for Tenant Ownership". However, the Grantee has not incurred any costs or requisitioned for any PEG funds during the period we reviewed.

In addition to the OTAG/PEG funds, the Grantee received funds from non-Federal sources. In the year 2001, the Grantee received over \$1.7 million from non-Federal sources.

The Grantee has a separate accounting and reporting system for each OTAG/PEG. The Grantee maintains its accounting records at its office, which is located at 51 McWhorter Street, Newark, New Jersey.

## FINDING

### The Grantee Did Not Always Comply With HUD and Federal OTAG Requirements

Our review revealed that the Grantee did not always comply with HUD and/or Federal requirements pertaining to support for costs charged to the grant and allocated among prescribed activities. More specifically, the review revealed that the Grantee was unable to: a) provide adequate documentation to support rental expenses of \$18,600 that were charged to the OTAG; and b) support the pre-determined percentages used to allocate total costs incurred of \$159,673.26 among the four HUD prescribed activities of the OTAG. In this regard, the Grantee did not comply with provisions of OMB Circular A-122, which provide that cost must be adequately documented and commensurate with the benefits derived when allocated to benefiting functions. Consequently, the Grantee paid rental expenses with HUD funds that are unsupported, and reported costs to HUD by activity that may not be accurate. This occurred because Grantee officials believe that a rental agreement is not necessary, and

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because the officials are apparently unfamiliar with Federal requirements pertaining to selecting a supportable base to allocate costs among activities benefited. Thus, we recommend that HUD require the Grantee to obtain and maintain a rental agreement/lease to support the rental expenses charged to the grant, and to develop and maintain documentation to support the percentages used to allocate cost among the four HUD prescribed activities.

OMB Circular A-122, Attachment A, Paragraph 2(g) provides that costs "must be adequately documented". In addition, OMB Circular A-122, Attachment A, Paragraph D (3)(c), entitled "Allocation Bases" provides that "actual conditions shall be taken into account in selecting the base to be used in allocating the expenses in each grouping of benefiting functions. The essential consideration in selecting a method or base is that it is the one best suited for assigning the pool of costs to cost objectives in accordance with benefits derived..."

## **A. Unsupported Rental Expenses**

Our review disclosed that the Grantee included expenses for rental space on vouchers submitted under the OTAG without adequate documentation to support those expenses. The Grantee provided cancelled checks in the amount of \$600.00 a month to an organization, as part of the support for rental expenses vouchered; however, no rental agreement was provided. Grantee officials told us that they did not have a written rental agreement and that the charges for rent were based on a "handshake". Accordingly, Grantee officials did not consider it necessary to obtain a rental agreement. However, we believe that without a written rental agreement or lease, there is inadequate documentation to support that the payments for rent were necessary and reasonable. As a result, the Grantee did not comply with OMB Circular A-122, Attachment A, Paragraph 2(g), which requires that costs be adequately documented.

The total rent expensed during the audit period amounted to \$18,600. Accordingly, we consider the \$18,600 rental expense as unsupported pending HUD's determination of the reasonableness and allowability of these costs.

## **B. Unsupported Pre-Determined Percentages**

HUD requires Grantees to classify eligible costs incurred with grant funds into four activities as shown on the payment voucher (HUD form 50080-OTA) that is used to draw down OTAG funds from HUD. Our review disclosed that the Grantee submitted vouchers to HUD using pre-determined percentages to allocate costs to the four HUD prescribed activities, which are: Regional OTAG and Clearing House Activities (Account 6010), Project Specific Activities (Account 6020), Administrative Expenses (Account 6030), and Audit Costs (Account 6040). According to Grantee officials, total costs, as submitted on the voucher, were allocated as follows: 45 percent for Regional OTAG and Clearinghouse Activities; 50 percent for Project Specific Activities; and 5 percent for Administrative Activities. In this regard, the Grantee allocated the costs incurred, which totaled \$159,673.26 with OTAG funds as follows:

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<u>Activity</u>	<u>Percentage</u>	<u>Amount</u>
Regional OTAG & Clearinghouse Activities	45%	\$71,852.97
Project Specific Activities	50%	79,836.64
Administrative Activities	05%	7,983.65
Audit Costs	<u>0%</u>	<u>0.00</u>
Total	100%	\$159,673.26
	=====	=====

Except for rental expenses, the Grantee was able to support that the total cost is chargeable against the OTAG. However, Grantee officials were unable to provide documentary support showing how the percentages that were used to allocate the costs to the various HUD prescribed activities were determined. As a consequence, the Grantee was unable to support that costs allocated to the various activities are commensurate with the time and efforts Grantee employees spent performing the HUD described work under each activity. Since the allocated amounts were reported to HUD, HUD may not have accurate amounts by each activity to evaluate the effectiveness of the OTAG on the Mark-to-Market Program. In connection with the above, we attempted to determine how employees of the Grantee allocated their time to various activities; however, we were unable to make the determination because the records showing the time each employee worked do not reflect the activities to which an employee charged his/her time. Thus, the Grantee failed to develop documentation to support an allocation base, as required by OMB Circular A-122 that could have been used for allocating eligible OTAG costs among the four HUD prescribed activities.

## Auditee Comments

## OIG Evaluation of Auditee Comments

## RECOMMENDATIONS

We recommended that the HUD, OMHAR:

- 1A. Instruct the Grantee to develop procedures to ensure compliance with OMB Circular A-122 as it pertains to maintaining adequate supporting documentation for all costs charged against the grant and allocated among the grant activities.
- 1B. Instruct the Grantee to obtain and provide to HUD a rental agreement or lease that supports the rental expenses charged to the Grant of \$18,600. If such an agreement is not provided, the Grantee should be instructed to reimburse the total amount of the expenses to HUD from non-Federal funds, and discontinue charging rental expenses to the Grant.



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- 1C. Instruct the Grantee to develop and submit, for HUD's review and/or approval, adequate documentation showing that the predetermined percentages used to allocate costs among the HUD prescribed activities of the OTAG produced allocated amounts to each activity that was commensurate with the benefits derived. If the Grantee is unable to support the percentages used, the Grantee is to be instructed to develop a supportable allocation plan in accordance with the requirements of OMB Circular A-122.

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## MANAGEMENT CONTROLS

In planning and performing our audit, we considered the management controls relevant to the Grantee's Section 514 programs to determine our audit procedures, not to provide assurance on the controls. Management controls include the plan of organization, methods, and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

We determined that the following management controls were relevant to our audit objectives:

- Controls Over Allocating of Costs and Reporting of Activities
- Controls over Cash Receipts and Cash Disbursements
- Controls over Payroll

It is a significant weakness if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet an organization's objectives.

Based on our review we determined that management control weaknesses exist in the following areas:

### **Controls over Cash Disbursements**

The Grantee did not provide adequately supporting documentation for rental expenses charged to the grant. (See Finding Part A).

### **Controls over Allocating Costs**

The Grantee was unable to provide adequate documentation to support pre-determined percentages used to allocate costs among the four activities of the OTAG. (See Finding Part B).

## FOLLOW-UP ON PRIOR AUDITS

This is the initial HUD-OIG audit performed on the Ironbound Community Corporation.

SCHEDULE OF QUESTIONED COSTS

FINDING NUMBER	TYPE OF QUESTIONED COSTS	
		Unsupported
1		\$18,600.00

- 1/ Unsupported costs are costs charged to a HUD-financed or HUD-insured program or activity and eligibility cannot be determined at the time of audit. The costs are not supported by adequate documentation or there is a need for a legal or administrative determination on the eligibility of the costs. Unsupported costs require a future decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of Departmental policies and procedures.

## Distribution

### OUTSIDE OF HUD

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NO. 628 P. 5/16

## OUTREACH AND TRAINING GRANTEE MANAGEMENT REVIEW

[This Management Review will be e-mailed to the suggested reviewer]

HUD TENANTS' COALITION/  
Intermediary Name: INDEPENDENT COMMUNITY CORPORATION

Address: 95 FLEMING AVE.  
NEWARK, N.J. 07105

[ ] On-site Interview with: NAVY JAC BILL (ED)

FRANK HUTCHINS, JOE DELLA  
[ ] Review conducted, date: MAY 7, 1998 FACE

HUD Reviewer's Name: BOB GOMBERT

HUD Reviewer's Phone No. 973. 621-7900 X3539

[ ] General Rating: ( ) Superior  
(X) Satisfactory  
( ) Below Average  
( ) Unsatisfactory

Comments: